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Decision **PROPOSED DECISION OF ALJ SULLIVAN** (Mailed 7/9/02)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company in the 2000/2001 Revenue Adjustment Proceeding.	Application 01-06-003 (Filed June 1, 2001)

Christine Costa Rosskopf, Attorney at Law, for Southern California Edison Company and Jennifer Post, Attorney at Law, for Pacific Gas and Electric Company, applicants.
SkJerven, Morrill, MacPherson, by Robert B. Gex, Attorney at Law, for BART, intervenor.
Sutherland, Asbill & Brennan, LLP, by Keith R. McCrea, for CA Manufacturers & Technology Assoc.; Morrison & Foerster, LLP, by Peter Hanschen, Attorney at Law, for Agricultural Energy Consumers Association; and Michael Peter Florio, Attorney at Law, for The Utility Reform Network, interested parties.
Jason Zeller, for Legal Division and Christopher J. Blunt, for Office of Ratepayer Advocates.

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DECISION RESOLVING OUTSTANDING ISSUES IN PG&E'S 2000/2001 REVENUE ADJUSTMENT PROCEEDING AND VERIFYING ENTRIES IN THE TRANSITION REVENUE ACCOUNT

1. Summary

This Revenue Adjustment Proceeding (RAP) decision determines that Pacific Gas and Electric Company (PG&E) followed Commission directives in Decision (D.) 90-12-128 and D.97-03-017 to assess the reasonableness of its special contracts and rate design window contracts. These calculations determine that during the period under our review – July 1, 1999 through April 30, 2001 – two contracts fell $33,166 short of covering the Commission-adopted marginal costs. In making this determination, we reject the Office of Ratepayer Advocates' (ORA) argument that we should change the marginal cost methodology and disallow approximately $40.2 million in contract costs. The decision notes that adopting a new marginal cost methodology is beyond the scope of this proceeding. We also find that PG&E's contracts offered discounts below tariff rates of only $1.7 million, far below the requested $40.2 disallowance.

We also take a series of actions concerning undisputed matters that constitute the heart of a RAP proceeding. We verify all undisputed entries into the Transition Revenue Account (TRA) for the period from July 1, 1999 through April 30, 2001, including over $14.6 billion in power purchases. We eliminate one balancing and 11 memorandum accounts as unneeded. We authorize undisputed ratemaking, revenue allocation and rate design proposals that are not controversial and have no impact on PG&E's consumers at this time. We verify PG&E's undisputed calculation of the PX price, which is used both to inform customers and to determine CTC balances. We also verify the undisputed amounts in specific balancing accounts subject to our review in this

proceeding: the Electric Vehicle Balancing Account (EVBA), the E-BID Memorandum Account (E-BIDMA), and the Power Exchange Block Forward Market Memorandum Account (PX BFMMA).

2. Background

In D.97-10-057, the Commission established the TRA and the revenue adjustment proceeding (RAP). The RAP verifies, and adjusts as necessary, entries made to the TRA in the prior period. In addition, the RAP consolidates the revenue requirements approved in other proceedings and sets the unbundled rate components for an electric utility.

The Commission has twice previously resolved such proceedings. D.99-06-058 resolved the 1998 RAP. D.01-01-019 resolved the 1999 RAP.

The focus of this RAP is the adjustment, verification, and consolidation of Commission-approved costs and revenues in Pacific Gas and Electric's (PG&E) TRA for the period July 1, 1999 through April 30, 2001. The goal is to ensure that PG&E accurately calculates the amount of revenues available to transfer to the Transition Cost Balancing Account (TBCA) to offset transition costs.

3. Procedural History

The current 2000/2001 RAP commenced on June 1, 2001, when PG&E filed Application (A.) 01-06-003. Like previous RAPs, A.01-06-003 seeks to resolve a series of issues pertaining to utility operations, entries into the TRA and other regulatory accounts and rate design.

On July 5, 2001, the Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) filed protests to PG&E's application. ORA, among other things, proposed a consolidation of PG&E's application with that of Southern California Edison Company (Edison) (A.01-09-006). PG&E replied to these protests on July 13, 2001.

On October 22, 2001, the Commission held a joint PHC to determine the next steps in A.01-06-003, the PG&E RAP, and A.01-09-006 the Edison RAP. Despite the common name, the PG&E and Edison RAP differed greatly in the issues considered. At the PHC, ORA withdrew its request to consolidate the proceedings. In the absence of any objections, Administrative Law Judge (ALJ) Sullivan ruled that the Commission would consider the RAP applications of PG&E and Edison separately.

A November 2, 2001 Ruling set the scope and timetable for this proceeding. At the request of ORA, a December 12, 2001 Ruling extended the timetable for this proceeding.

On December 28, 2001, PG&E filed a notice of revisions to testimony. Pursuant to D.01-09-060, this notice removed the "Post-PX Direct Access Credit Issue" from this proceeding.

Evidentiary hearings were held on February 11 and February 13. With the submission of reply briefs, the case was deemed submitted as of April 2, 2002.

4. Issues in Proceeding

The November 2, 2001 Scoping Memo identified the principal issues to be considered in this Application. These issues involve Commission approval of:

> "(1) PG&E's entries to the TRA during the record period July 1, 1999 through April 30, 2001;
>
> "(2) the reasonableness of PG&E's special electric contracts;
>
> "(3) PG&E's proposal on the elimination and retention of certain balancing and memorandum accounts;
>
> "(4) PG&E's proposals for revenue requirement adjustments;
>
> "(5) PG&E's electric sales and billings forecast for 2002;
>
> "(6) PG&E's proposals for revenue allocation and rate design;

> "(7) PG&E's Schedule Power Exchange price calculations and methodology;
>
> "(8) PG&E's entries to the Electric Vehicle Balancing Account; and also
>
> "(9) PG&E's entries to the Schedule E-BID Memorandum Account and Power Exchange Block Forward Memorandum Account."[1]

PG&E presented evidence concerning each of these issues in its testimony. Of central importance to this proceeding is PG&E's analysis of its special contracts. Based on its review of its special contacts, PG&E proposes a disallowance, entered as a shareholder credit, of $33,166.

In its response, ORA's testimony presented its views on whether PG&E's showing provided an adequate factual record supporting each proposed RAP adjustment. ORA contends that all of PG&E's special electric contracts are unreasonable, and proposes a disallowance of $40 million.

On all other issues, ORA found itself in agreement with PG&E's proposed RAP entries, adjustments, or illustrative filings. Concerning matters where there was substantial agreement between ORA and PG&E, the presiding ALJ conducted extensive cross-examination to ensure the development of an adequate factual record to support the Commission's policy determinations.

We first address the central disputed issue in this proceeding – the reasonableness of the special electric contracts – and subsequently review all other matters that constitute the scope of this proceeding.

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[1] Scoping Memo of Assigned Commissioner and Administrative Law Judge, November 2, 2001, pp. 3-4.

5. Reasonableness of PG&E's Special Electric Contracts

Background

In D.87-05-071, the Commission authorized PG&E to offer electricity under special contracts.[2] Under these contracts, certain customers that could have bypassed PG&E's system by installing equipment to generate their own electricity pay discounted electric rates in exchange for their agreement not to leave the system. The Commission authorized PG&E to offer contracts designed to retain customers via rates attractive enough to dissuade those customers from generating electricity themselves. At the same time, the Commission sought to assure that those customers receiving discounts continued to pay at least the marginal cost of the service the utility provided. The Commission found that "[s]pecial contracts can be useful in retaining potential bypassers on the system and in increasing sales to existing customers"[3] and that "[s]pecial contracts can provide an overall benefit to ratepayers."[4]

In D.90-12-128, the Commission reviewed the first of PG&E's special electric contracts and required the revenues from the contracts to recover the marginal cost of energy, capacity (generation, transmission and distribution) and customer costs.[5] Specifically, "the Commission concluded that, in order to receive expedited approval, a contract should include a floor price designed to assure that the utility recovers from the customers no less than the lowest price

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[2] 24 CPUC 2d 412; 1987 Cal. PUC Lexis 782,

[3] D.87-05-071; 24 CPUC 2d 412; 1987 Cal. PUC Lexis 782, *40, Finding of Fact 21.

[4] D.87-05-071; 24 CPUC 2d 412; 1987 Cal. PUC Lexis 782, *40, Finding of Fact 22.

[5] D.90-12-128; 1990 Cal. PUC Lexis 1416, *14 - *31

possible that does not disadvantage other ratepayers in either the short or long run."[6] This floor price, when multiplied by the customer's specific usage data, yields the "floor revenues,"[7] the minimum amount that must be recovered under the contract.

One other concept, the Contribution to Margin (CTM), is important in our evaluation of the special contracts. To calculate the CTM, the floor revenues are subtracted from contract revenues. This, in turn, sets the standard for reasonableness, for "[i]t would be unreasonable for a utility to enter into a contract that can reasonably be foreseen as not providing a preferable CTM."[8]

Under current regulations, if a contract generates a negative CTM, PG&E's shareholders must fund the difference between the contract's revenues and the floor revenues. As the Commission has stated: "Any amounts in the memorandum account . . . that reflect the difference between adopted marginal costs and the contract rates should be disallowed."[9] Similarly, "[t]he absence of protection in the . . . contract's floor provision to cover generation, transmission, and distribution capacity costs is unreasonable. PG&E should not be allowed recovery for any future shortfall resulting from the inadequate floor revenue provision." [10] Following a review of these contracts in the RAP proceeding, shareholders fund any negative CTM through a credit entry to line 8 of the TRA,

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[6] Ibid., pp. *14 - *15.

[7] Ibid.

[8] Ibid., *68, Conclusion of Law 9.

[9] Ibid., *68, Conclusion of Law 10.

[10] Ibid., *68 - *69, Conclusion of Law 12.

Shareholder Participation Credits. This procedure has the effect of holding shareholders responsible for revenue shortfalls generated by the special contracts.

During the period under our review, PG&E administered seven special electric contracts. These contracts are between PG&E and the following entities: Mills Hospital, Peninsula Hospital, Sequoia Hospital, Semitropic Water Storage District, Avenal State Prison, Genentech, Inc. and Exxon.[11] The Commission first reviewed the contracts with Mills Hospital, Peninsula Hospital, and Sequoia Hospital in PG&E's 1988 Energy Cost Adjustment Clause (ECAC) Proceeding, which resulted in D.90-12-128 (D.90-12-128; 1990 Cal. PUC Lexis 1416). The Commission first reviewed PG&E's contracts with Semitropic Water Storage District, Avenal and Exxon in the 1995 ECAC proceeding, which resulted in Decision 97-07-052.[12] The Commission initially reviewed and approved PG&E's contract with Genentech in D.94-09-071, which found that "[b]ased upon all the facts and circumstances known to the Commission at the time of this decision, PG&E's decision to enter into the Amended Proposed Agreement [with Genentech] is prudent."[13]

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[11] Exhibit 1, p. 2A-10.

[12] Although the reasonableness of these contracts was an issue for that ECAC proceeding, D.97-07-052 does not specifically address this issue. PG&E presented evidence in its application (A.96-04-001) that these contracts generated a positive CTM and no party disputed either PG&E's showing or the reasonableness of these contracts.

[13] 1994 Cal. PUC Lexis 654, *16, Conclusion of Law 10; 56 CPUC 2d 513.

PG&E: A Commission-set Methodology for Contract Assessment Shows that a $33,166 Shareholder Credit is Warranted

PG&E asserts that it reasonably administered its special electric rate design window contracts and appropriately calculated the shareholder credit entries to the TRA. PG&E states that it complied with standing Commission decisions governing and establishing the marginal costs used to calculate floor revenues and the CTM of special electric and rate design window contracts.

PG&E states that D.90-12-128 and D.97-03-017 adopted a methodology for calculating the marginal cost of electricity that should be used to calculate the floor revenues and the CTM of special electric and rate design window contracts. PG&E further claims that it has followed the Commission-adopted methodology and used the Commission-adopted marginal energy, capacity (generation, transmission, and distribution) and customer costs in effect during 1999 and 2000 to calculate floor revenues and CTM for each of its special electric and rate design window contracts during that time frame.

PG&E states that it has demonstrated that "with the exception of Sequoia Hospital in 1999 and Peninsula Hospital in 1999 and 2000, all of PG&E's special electric and rate design window contracts generate positive CTM."[14] PG&E notes that its analysis finds that during 1999, "contract revenues from Sequoia were $10,666 below the floor revenues required for that contract and contract revenues from Peninsula were $11,986 below the floor revenues required for that contract."[15] Similarly, in 2000, the revenues from the Peninsula contract were

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[14] PG&E, Opening Brief, p. 5, citing Exhibit 1, pp. 2A-6, 2A-8 and 2A-9.

[15] PG&E, Opening Brief, p. 5, citing Exhibit 1, pp. 2A-8 and 2A-9 and PG&E Witness Wong, Transcript, p. 58, lines 10-21.

$10,513 below the floor revenues.[16] As a result, PG&E has requested authorization to record a shareholder credit of $33,166 to line 8 of the TRA.[17] This accounting action has the result of disallowing $33,166 from the amount that PG&E may collect from ratepayers.

Finally, PG&E contends that any other approach to calculating floor revenues and determining the CTM is not legal. In particular, PG&E argues that D.90-12-128 requires PG&E to use the adopted marginal costs in effect to calculate the floor and determine the CTM of its special electric contracts. PG&E further states that the applicable marginal costs in effect in 1999 and 2000 are those the Commission adopted in Phase 2 of PG&E's 1996 General Rate Case, D.97-03-017. PG&E concludes that the use of another proxy to recalculate the 1999 and 2000 CTM would violate D.90-12-128 and D.97-03-017.

ORA: A Shareholder Credit of $40 Million is Warranted

ORA argues that the "record clearly demonstrates that PG&E has failed to compute the contribution to margin associated with its special electric contracts in accordance with long-standing Commission guidelines, and must therefore be directed to recalculate costs of service for Special Contract customers to reflect generation costs incurred on Schedule PX."[18] ORA states that its testimony showed that "there is a negative CTM associated with PG&E's Special Contracts" and that the "resulting revenue shortfall is embedded in the TRA."[19] ORA

[16] Id.

[17] Exhibit 1, p. 2A-8.

[18] ORA, Opening Brief, p. 1.

[19] ORA, Opening Brief, p. 3.

argues that “PG&E’s CTM methodology is flawed, since PG&E failed to consider vastly changing market conditions after the 1998 electric deregulation, the electricity and gas crises in the second part of 2000, and PG&E’s methodology did not acknowledge the effect of Schedule PX on its procurement costs.”[20]

ORA further argues that “all customers, whether or not they are buying electricity pursuant to Special Contracts, must pay the full cost of the service they are receiving.”[21] ORA notes that its “CTM estimate generated an amount of about $40 million in revenue shortfall during 1999 and 2000 to serve those customers on Special Contracts.”[22] ORA concludes its brief by arguing that “PG&E’s faulty calculation does not reflect the actual costs to serve those customers, and therefore inappropriately and contrary to Commission policy PG&E’s calculation transfers responsibility for any revenue shortfall from shareholders to ratepayers.”[23]

Discussion: PG&E Follows Commission-set Methodology

The key precedents for establishing the reasonableness of Special Contracts are D.90-12-128 (1990 Cal. PUC Lexis 1415; 39 CPUC 2d 183) and D.97-03-017 (1997 Cal. PUC Lexis 138; 71 CPUC 2d 212). Together, they incontrovertibly detail how the Commission expects PG&E to calculate floor revenues, CTM and the reasonableness of any special contract. The line of reasoning is straightforward. In D.90-12-128, Conclusion of Law 5 states: “The adopted

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[20] Ibid.

[21] Ibid., p. 6.

[22] Ibid., p. 6.

[23] Ibid., p. 8.

marginal cost in effect at the time should be used to determine reasonable floor revenues."[24] Then, in D.97-03-017, a General Rate Case decision for PG&E, the Commission ordered that:

> "1. The marginal costs for electric service by Pacific Gas and Electric Company (PG&E) as set forth in Appendix B to this order are adopted only for the limited purposes of: (1) payments to qualifying facilities (through capacity allocation factors and the capacity value); (2) evaluation of demand-side management cost-effectiveness, and (3) **price floors for discounted special contracts."**[25]

No subsequent Commission decision has changed marginal costs. Further, no party requested either in its protest to PG&E's application or at the PHC that the Commission use this proceeding to alter the methodology for calculating marginal costs and / or price floors.

The November 2, 2001 Scoping Memo in this proceeding does not identify alteration of the methodology for calculating marginal costs as within the scope of this proceeding. Moreover, the scope set in the November 2, 2001 Ruling is consistent with a long history of Commission rulings in RAP proceedings. Prior to the first annual RAP, a Coordinating Commissioner's Ruling of May 14, 1998 identified the functions of the annual RAP proceeding:

> "Function: Consolidate revenue requirement adjustments; authorize recovery of preceding calendar year's revenue requirements; adjust authorized revenue requirements for current calendar year; verify and adjust as appropriate headroom calculation from Transition Revenue Account (TRA); authorize headroom credit to TCBA

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[24] 1990 Cal. PUC Lexis 1415, *68 - *69; 39 CPUC 2d 183.

[25] 1997 Cal. PUC Lexis 138, *70; 71 CPUC 2d 212, emphasis added.

Function: Streamlining of other balancing accounts and implementation of ratemaking mechanisms for end of transition period

Function: Revenue allocation and rate design”[26]

Thus, the Commission established firm parameters at the start of this series of proceedings that did not include a reexamination of marginal cost methodologies in this proceeding. This proceeding has followed these parameters and made it clear that we did not intend to reexamine marginal cost methodolgy.

Moreover, no party requested that the Commission expand the scope of the proceeding to review marginal cost methodology. In particular, ORA’s briefs, its oral statements in the public participation, and its testimony provide no legal argument for ignoring the Commission decisions and previous rulings that set the marginal costs that PG&E must apply and the Commission should use to determine the reasonableness of its special contracts. No party has filed either to modify or rehear either D.97-03-017 or D.90-12-128. With no request for a new examination of this issue, and no notice to the many parties to prior proceedings, there can be no other conclusion but that the Commission expects PG&E to calculate the CTM using Commission adopted marginal costs, specifically those adopted in D.97-03-017.

PG&E’s testimony concerning the reasonableness of the special contracts and rate design window contracts follows the Commission-adopted methodology. PG&E uses the Commission-adopted marginal energy, capacity (generation, transmission and distribution) and customer costs in effect during 1999 and 2000 to calculate floor revenues and the CTM of its special electric and

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[26] Coordinating Commissioner’s Ruling Setting Filing Dates for Revenue Adjustment Proceeding, May 14, 1998, Attachment 1.

rate design window contracts during the time frame covered by our review. Although ORA urges that the Commission use an alternate cost methodology, ORA does not provide any facts that cast doubt on PG&E's fidelity to the Commission's assessment rules.

Specifically, PG&E administered seven special electric contracts during 1999 and 2000 that are subject to review in this proceeding. These contracts are between PG&E and each of the following: Mills Hospital, Peninsula Hospital, Sequoia Hospital, Semitropic Water Storage District, Avenal State Prison, Genentech Inc. and Exxon. PG&E used the marginal costs in effect during 1999 and 2000 to calculate the floor revenues and determine the CTM for each of these contracts during the time frame of our review. In particular, PG&E determined the floor revenues for each of its contracts by multiplying the adopted marginal energy, capacity (including generation, transmission and distribution) and customer costs in effect at the time by customer usage. Further, to ensure an accurate comparison of floor revenues and contract revenues, PG&E escalated the marginal costs adopted in D.97-03-017 to 1999 and 2000 dollars by applying escalation factors supplied by an economic consultant.[27] Using the Commission-approved methodology (modified to include escalation factors), PG&E has demonstrated that, with the exception of Sequoia Hospital in 1999 and Peninsula Hospital in 1999 and 2000, all of PG&E's special electric and rate design window contracts generated positive CTM. During 1999 contract revenues from Sequoia were $10,666 below the floor revenues required for that contract and contract

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[27] This action is consistent with general Commission practice, and has the effect of holding the special electric and rate design window contracts to a higher standard than an aggressive and technical interpretation of D.90-12-128 and D.97-03-017 would require.

revenues for Peninsula were $11,986 below the floor revenues required for that contract. In 2000, the contract revenues from Peninsula were $10,513 below the floor revenues required for that contract. These calculations result in a net disallowance (and shareholder credit) of $33,166.[28]

Although electric markets were extremely turbulent during 1999 and 2000, this fact provides no justification either for a $40 million disallowance or for ignoring prior Commission decisions. Factually, PG&E testified, and ORA did not controvert, that the difference between what customers holding these contracts paid and what they would have paid if they simply bought power at the frozen, full tariffed rate, was $1.7 million. This is clearly far below ORA's proposed shareholder credit of $40.2 million, which is based on a recalculation of floor revenues using the PX prices as marginal cost.

Similarly, the distorted electric markets do not justify abandoning prior Commission decisions in this area. ORA argues that "The actual cost of procuring electricity during the record period is captured in Schedule PX."[29] This argument is not persuasive. Indeed, even the Federal Energy Regulatory Commission has found the Schedule PX prices unreasonable, and is actively investigating allegations of market manipulation by energy companies.[30] Thus, there is no basis for concluding that what PG&E and other California utilities paid for electric power in this period had any relation to cost. It is even less plausible to use these prices as an acceptable "marginal cost" methodology for

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[28] We also note that ORA does not dispute the accuracy of these calculations.

[29] ORA, Opening Brief, p. 6.

[30] <u>San Diego Gas and Electric Company, et. al.</u>, 93 FERC ¶ 61, 121 (2000) ("November 1 Order"), ER 301; 2000 FERC LEXIS 2168, *3.

reviewing the reasonableness of contracts and supporting a $40 million disallowance.

In addition to the factual implausibility of using Schedule PX as the marginal cost methodology, there is no legal basis for this action. ORA's proposal to require PG&E to re-calculate the floor revenues and CTM for the 1999 and 2000 CTM of its special electric and rate design window contracts by substituting the average annual PX price for the adopted energy and generation capacity marginal cost violates Commission decisions governing the marginal costs used to calculate floor revenues and determine the CTM. Indeed, if we were to accept ORA's proposed reasonableness standard and methodology, PG&E could only have avoided a disallowance by charging approximately $40 million more for power over this period. To do so, however, PG&E would have had to 1) predict that the Commission would adopt new marginal costs in the RAP, 2) predict that the Commission would require PG&E to apply them retrospectively, and 3) write a contract that permitted PG&E to violate the statutorily-based Commission decisions implementing the rate freeze.

PG&E has replied to ORA's proposal, stating that "ORA's request that the Commission find PG&E's administration of special electrical contracts unreasonable because PG&E didn't use the energy and generation capacity marginal cost ORA proposed in this proceeding holds PG&E to an impossible standard."[31] There is much merit to PG&E's remarks.

ORA's request similarly put the Commission in an impossible position – it asks the Commission to ignore the clear orders of the Commission's previous

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[31] PG&E, Opening Brief, Attachment A, Proposed Findings of Fact, p. 4.

decisions to alter the Commission adopted marginal cost despite the fact that it is clearly beyond the scope of this proceeding.

In summary, we find PG&E's evaluation of its special contracts and rate design window contracts as consistent with the Commission's methodology for calculating revenue floors and CTM as required by D.90-12-128 and D.97-03-017. Thus, PG&E's CTM calculation and proposed shareholder credit entries are reasonable and are adopted. ORA's marginal cost proposal is outside the scope of the RAP and inconsistent with D.90-12-128 and D.97-03-017. As a consequence, we reject ORA's recalculation of floor revenues as unreasonable and decline to order PG&E to conduct any recalculations using Schedule PX prices.[32]

6. Other RAP Issues

As mentioned above, there was no dispute between PG&E and ORA concerning any of the other issues in this proceeding. PG&E presented testimony on each issue, and ORA responded with testimony on most issues. In addition, the presiding officer asked extensive questions on this testimony in order to insure the development of a full factual record on each issue. We describe each of these issues, the resolution proposed, and the reasons for adopting the proposed resolution.

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[32] PG&E made a motion to strike from the record all evidence related to ORA's marginal cost proxy proposal at the February 11, 2002 Evidentiary Hearing and renewed its motion in its Opening Brief. ORA's Reply Brief argues that PG&E's objection "is without merit." Although the legal arguments offered by PG&E concerning the scope of the proceeding are compelling and not specifically rebutted by ORA, at this point in the proceeding consideration of PG&E's motion to strike is moot.

Eliminate Balancing and Memorandum Accounts

PG&E proposed the elimination of one balancing and eleven memorandum accounts. PG&E provides both general and specific rationales for these actions. In general, PG&E notes "these accounts are not longer accumulating costs, either because costs are not longer being incurred or because the Commission has subsequently ordered that the costs be recorded in different accounts."[33] Specifically, PG&E documents the Commission actions that eliminate the need for each account.

In response, ORA points out that "PG&E has approximately sixty balancing and memorandum accounts."[34] ORA states that it does not object to the elimination of the accounts as proposed by PG&E.

There is no controversy on any of these actions. The table below lists the name of each account and the reason for its elimination.

It is reasonable to eliminate these accounts, and we authorize PG&E to do so.

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[33] Exhibit 1, p. 3-2.

[34] Exhibit 100, p. 2-4.

NAME OF ACCOUNT	JUSTIFICATION FOR ELIMINATION
Energy Efficiency California Energy Commission (CEC) Memorandum Account	As of December 31, 2000, PG&E fulfilled its obligation and completed transfer of all funds to CEC.
Demand Side Management (DSM) Tax Change Memorandum Account	Account established in case the IRS changed tax treatment of DSM expenditures. No change has occurred since 1994. Account not needed.
Industry Restructuring Memorandum Account – Six Remaining Subaccounts: 1) Environment Impact Report Costs; 2) Direct Access Implementation Costs; 3) ISO / PX and Other Wholesale Interface Costs Subaccount; 4) Hourly-Interval Meter Installation and Reading Costs; 5) UDC Billing System Modification Costs; 6) Customer Information Release Systems Cost	Subaccounts established to record implementation costs of restructuring. Funds recovered through 1998. New memorandum account established in 1999. Therefore, accounts have zero balances and are not used.
Divestiture Bonus Return on Equity Memorandum Account	Track revenue requirement differential associated with bonus rate of return for the divesting of fossil plants. Current balance zero; program no longer applicable. Account not needed.
Electric Low-Income Direct Assistance Memorandum Account (ELIMA)	Low-income assistance funds included in base revenues since 1999. Prior ELIMA balances transferred to TRA in 1999. Result: zero balance and unused account.
Research, Development and Demonstration (RD&D) One-Way Balancing Account	Account to track difference between RD&D expenses and authorized revenues prior to 1999. Refunds made. Account not needed.
Workforce Reduction Revenue Mechanism Memorandum Account	Account records difference between authorized and recorded revenue requirements associated with net savings from 1993 Workforce Management Program. In 2001, Commission authorized recovery of balances and ordered account closed. No balance. Account not needed.

PG&E's Ratemaking and Revenue Adjustments are Reasonable

As part of the RAP proceeding, the Commission identifies and reviews in a single place all revenue requirement and rate changes approved or currently pending before us. In this RAP, PG&E requests Commission approval of its 2001 and 2002 unbundled revenue requirements, as well as how PG&E's revenue requirements will be consolidated and then unbundled into separate categories for the purposes of setting unbundled rate components shown on customer bills.

PG&E provides illustrative unbundled revenue requirements for 2001 and 2002. PG&E shows a 2001 revenue requirement of $7,210,819,000, consisting of $4,141,698,000 for generation, $33,181,000 for nuclear decommissioning, $429,091,000 for transmission, $2,406,017,000 for distribution, and $200,832,000 for public purpose programs.[35] Similarly, PG&E shows a 2002 revenue requirement of $10,486,902,000, consisting of $7,373,103,000 for generation, $33,181,000 for nuclear decommissioning costs, $2,436,026,000 for distribution, $200,833,000 for public purpose programs, and $423,766,000 for transmission.[36] PG&E requests Commission approval of these 2001 and 2002 "consolidated illustrative revenue requirements."[37] PG&E further states that it "will update the 2002 revenue requirement at the time a final decision is adopted in this proceeding to reflect final Commission-adopted and FERC-adopted revenue

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[35] Ex. 5, p. 4-4 Eratta.

[36] Ex. 5; p. 4-5, Errata.

[37] Ex. 1, p. 4-3.

requirements changes in the pending applications listed . . ."[38] Finally, PG&E "also proposed to update its revenue requirement with the most recent balancing and memorandum account balances at the time of the final RAP decision in this proceeding is issued."[39]

ORA testifies that the information provided by PG&E "was developed using the existing methodologies authorized in earlier Commission decisions."[40]

Our review of this information convinces us of the accuracy of PG&E's entries, and we grant PG&E's request that we accept the 2001 and 2002 illustrative revenue requirements as reasonable, subject to the adjustments required to reflect the outcome of pending state and federal proceedings.

PG&E's Sales and Billings Forecasts for 2002 are Reasonable

Historically, the RAP provides an electric sales and billings forecast. PG&E's testimony provides forecasts for the years 2001 and 2002. PG&E includes the year 2001 for continuity purposes and a year 2002 forecast.

With the continuation of a rate freeze, the electric sales and billings forecast has no readily foreseeable impacts on customers. As the ALJ's cross-examination of PG&E's witness makes clear:

> Q . . . What happens now that you have this forecast on the record? What changes for the customer?
>
> A. I don't believe anything, at this point in time. . . .[41]

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[38] *Ibid.*

[39] Ibid.

[40] Ex. 100, p. 3-1.

[41] Tr., p. 36, lines 16-18.

And:

> Q. So what we do then is we adopt a rate forecast, but we don't use it in any way effecting the revenue requirements for the TCBA or the TRA or this proceeding at all?
>
> A. I believe that is true. . . .[42]

Thus, it is clear that this forecast is not a critical regulatory issue.

ORA's testimony notes that it finds PG&E's forecasts of customers and electric sales for 2002 reasonable "as they follow methodologies adopted by the Commission in D.99-06-058, D.01-01-019, D.01-10-067, and D.99-06-058."[43]

We concur that PG&E's forecasts are reasonable.

PG&E's Revenue Allocation and Rate Design are Reasonable

PG&E testifies that it uses Commission-authorized methodologies to allocate revenues and design rates. First, PG&E calculates the revenues that forecast sales and current prices will produce. Second, PG&E allocated its revenue requirements to the different customer classes and functions. Third, it examines discrepancies between revenues yielded by current rates and specific revenue requirements. Finally, since a rate freeze remains in effect, PG&E "seeks to make the simplest changes possible to revise rates to reflect the new functional revenue requirements and comply with AB 1890."[44] Since under the rate freeze, generation and transmission rates are set "residually," for every change in a rate, an offsetting change is made to generation and transmission rates to keep the customer's rate frozen.

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[42] Tr. p. 36 line 27 to p. 37, line 3.

[43] Exhibit 100, p. 3-2.

[44] Exhibit 1, p. 6-6.

In this particular proceeding, PG&E increases the rates for public policy program and nuclear decommissioning rate elements, and offsets these increases with decreases in the generation and transmission rates. This causes the effective customer rates to remain unchanged.

There are no foreseeable consequences for customers from the rate design that we are considering. Cross-examination makes this clear:

> Q. What I was trying to elicit is: what real world outcome is affected by action on this particular thing? And can you think of any?
>
> A. In the rate freeze, nothing. After the rate freeze, perhaps . . . But as far as what actually impacts the total rate, that's more – that's up to the Commission. I really can't say what would happen after the rate freeze.[45]

Once again, the adoption of a rate design proposal may prove helpful for future regulatory proceedings, but has no anticipated customer impacts now or in the near future.

ORA's review of PG&E's revenue allocation and rate design finds that it comports with the Commission's adopted methodologies.

We conclude that PG&E's revenue allocation and rate design are reasonable and authorize their adoption.

PG&E's Schedule PX Price Calculations are Reasonable

Since the issue of determining the post-PX direct access credit was moved to A.98-07-003, there remains for this proceeding only to review the price calculations for Schedule PX. The schedule PX price forms the basis for what

[45] Tr., p. 47, lines 1-9.

PG&E charges customers for bundled electric services. Since there is a rate freeze in effect, however, the total rate charged to the customer remains unchanged. The Schedule PX price, however, becomes critical for determining the contribution, whether positive or negative, to the CTC. For direct access customers, this calculation determines a PX credit that applies to their bills.

ORA does not dispute PG&E's calculation of the PX price or the PX credit.

Our review indicates that PG&E has applied the complicated methodologies used to create a PX Schedule Price and PX credit in a reasonable way. We conclude that PG&E's PX price and PX credit are both reasonable.

Amounts in Electric Vehicle Balancing Account are Reasonable

The EVBA records expenses associated with Commission-mandated utility programs to provide information about safe, efficient, reliable and cost-effective recharging or fueling and operation of electric and natural gas-powered vehicles. Additionally, the National Energy Policy Act of 1992 requires PG&E to purchase alternate fuel vehicles. These expenses are recorded into this account.

PG&E seeks to have the balances in the EVBA deemed reasonable to receive authorization to transfer these balances to the TRA. For the record period July 1, 1999 to April 30, 2001, PG&E recorded $1.48 million in the EVBA.

ORA recommends that "the Commission find PG&E's EV expenditure during the record period reasonable."[46] ORA notes that the expenditures of PG&E "have remained below the authorized amount in each program category."[47] Finally, ORA notes that its "review of PG&E's documentation finds

[46] Exhibit 100, p. 4-1.

[47] Ibid., p. 4-2.

the expenditures related to EV programs are within the approved budget and that the implementation of the EV programs are in accordance with guidelines set forth in D.95-11-035."[48]

Our review indicates that PG&E's expenditures related to EV programs are reasonable and that the Commission should authorize PG&E to transfer the $1.48 million recorded in the EVBA through April 30, 2001 to the TRA for recovery.

Entries to the Schedule E-BID Memorandum Account (E-BIDMA) and Power Exchange Block Forward Market Memorandum Account (PX BFMMA)

E-BIDMA Balances are Reasonable

The E-Bid Memorandum Account (E-BIDMA) contains costs associated with a demand responsiveness program in effect during the year 2000. This program allows PG&E to make payments to bundled customers in exchange for voluntary reductions in their energy usage when the PX day-ahead price was equal to or greater than $250 per megawatt hour.

The balance in the E-BIDMA as of April 30, 2001, including interest (less $32,500 of sign-up fees collected from participating customers) is $934,700. PG&E requests "the Commission find that PG&E's start-up administrative costs for the E-BID program are reasonable and prudent, and that the net cost of $934.7 thousand to implement the program was actually spent and fully recoverable in the EPSBA."[49]

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[48] Ibid., p. 4-2.

[49] Ex. 1, p. 9-3.

ORA notes that the actual costs of the program fall below the estimated start-up costs of $1.5 million. ORA further states that the net expenses of $934,700 "were found to be reasonable."[50]

We find that the start-up and administrative costs of the E-Bid program are reasonable and prudent, and that the net cost of $934,700 thousand to implement the program were spent and should be recovered in the Electric Procurement Surcharge Balancing Account (EPSBA).

PX BFMMA Costs are Reasonable

The costs recorded in the PX BFMMA account include, but are not limited to: credit and collateral costs including surety bond fees, cash collateral account financing costs, other fees associated with credit and collateral costs, and other costs directly resulting from PX requirements to participate in the Block Forward Market incurred by PG&E and which are not billed to PG&E by the PX or ISO.

During the period under review, PG&E recorded to the BFMMA actual costs paid to secure and maintain two bonds needed for PG&E to meet credit and collateral requirements in the BFM. The total costs of these two bonds as of April 30, 2001 is $92,582. PG&E requests "the Commission review and approve for full recovery in the EPSBA the $92,582 balance of the BFMMA, costs incurred by PG&E to participate in block forward markets that are not billed to PG&E by the PX and ISO."[51]

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[50] Ex. 100, p. 5-3.

[51] Ex. 1, p. 9-4.

ORA notes that the costs associated with the BFMMA are "reasonable."[52]

We find that for the record period July 1999 through April 2001, PG&E reasonably incurred and recorded $92,582 in the BFMMA. And approve for full recovery in the EPSBA the $92,582 balance of the BFMMA.

PG&E's Entries to the TRA During the Record Period July 1, 1999 through April 30, 2001 are Reasonable

In addition to the specific entries to the TRA discussed above, this proceeding reviews a host of routine entries into the TRA. In general, the TRA is designed to facilitate the determination of the residual or "headroom" revenues available for transfer to the TCBA to offset uneconomic generation costs.[53] The TRA is credited with total electric revenue, from which is subtracted transmission revenue, distribution, public purpose, and nuclear decommissioning revenue requirements, Fixed Transition revenue, Commission approved obligations consisting of Power Exchange (PX) charges, Independent System Operator (ISO) charges, restructuring implementation costs for the Consumer Education Program (CEP) and the Electric Education Trust (EET), incentives paid customer under PG&E's Price Responsive Load Program (discussed above), and Diablo Canyon Incremental Cost Incentive Price (ICIP) cost, exclusion items, including the independent safety committee fees, Department of Energy decommissioning and decontamination expenses, and special assessments.

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[52] Ex. 100, p. 5-3.

[53] D.97-10-057, Ordering Paragraph 15 (1997 Cal. PUC LEXIS 988, *45 - *46; 76 CPUC 2d 140).

The TRA is also credited with imputed revenues to reflect the shareholder participation portion of discounts or credits. The TRA is also credited with Revenue Cycle Services credits given to customers provided by entities other than PG&E.

If the TRA monthly balance is a credit, the balance equals the residual revenue requirement available to transfer to the TCBA to offset uneconomic generation costs. If the TRA balance is a debit, the debit balance, including interest, remains in the TRA and is carried over to the following month pursuant to Commission orders.

In this RAP, in addition to the issues identified previously, PG&E requests that the Commission "review and verify the TRA entries for the 22-month record period from July 1, 1999, through April 30, 2001 . . ."[54] PG&E notes that these entries are the same as "PG&E presented in its 1998 and 1999 Revenue Adjustment Proceedings (RAP) . . ."[55] with some noted exceptions due to Commission decisions implemented during the record period. These exceptions include restructuring implementation costs,[56] PX block forward market programs,[57] bilateral contract purchases,[58] implementation of the 1998 General Rate Case[59] and 1998[60] and 1999[61] RAP decisions, the 2000 cost of capital,[62] the

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[54] Ex. 1, p. 2-2.

[55] Ibid.

[56] D.99-05-031.

[57] Resolution E-3618.

[58] D.00-08-023.

[59] D.98-12-078.

2001 Attrition Rate adjustment,[63] the Catastrophic Event Memorandum Account costs,[64] transmission revenue from tariffs authorized by FERC and transmission-related reliability services revenue under FERC jurisdiction, and Department of Energy/Western Area Power Administration Contract Scheduling Coordinator Costs. Finally, pursuant to D.01-01-018, the Emergency Procurement Surcharge Balancing Account (EPSBA) was established, and beginning January 1, 2001, any unrecovered monthly balances in the EPSBA are transferred to the TRA. For the period under our review, the TRA commenced with an end of month balance of $0 for July 1999 and concluded with an end of month balance of $9,475,615,000 as of April 2001. (Ex. 4.) Many more billions passed through the account. Power purchases alone totaled $14.6 billion.

ORA reviewed PG&E's showing, conducted discovery, and produced a report that either approved or did not dispute PG&E's requests, with the single exception of the special contracts and rate design window (which was discussed in the first section of this decision), either approves or fails to dispute PG&E's other requests. In particular, ORA notes that it reviewed monthly reports and:

> "verified that PG&E made the necessary corrections and/or adjustments to their respective TRA. ORA concludes that PG&E recorded costs for recovery through the TRA in a manner consistent with Commission decisions and resolutions, and in

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[60] D.99-06-058.

[61] D.01-01-019.

[62] D.00-06-040.

[63] D.00-12-061.

[64] D.00-04-050.

> compliance with subsequent decisions when recording costs associated with new program in the TRA."[65]

Based on our examination of the evidence in this proceeding, we find that PG&E has met its burden of proving that its entries are reasonable and that it has followed Commission-approved procedures in making entries into these accounts.

7. Comments on Proposed Decision

The proposed decision of ALJ Sullivan was mailed to the parties in accordance with § 311(d) of the Pub. Util. Code and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed on _____________.

Findings of Fact

1. The Commission established the RAP as a proceeding in which it would: (1) consolidate revenue requirement adjustments; authorize recovery of preceding year's revenue requirements; adjust authorized revenue requirements for current calendar year; verify and adjust as appropriate the headroom calculation from the TRA; and authorize headroom credit to the TCBA; (2) streamline other balancing accounts and implement ratemaking mechanisms for the end of the transition period; and (3) review revenue allocation and rate design.

2. In D.90-12-128, Conclusion of Law 5 states: "[t]he adopted marginal cost in effect at the time should be used to determine reasonable floor revenues" for special contracts.

3. In D.97-03-017, a General Rate Case decision for PG&E, the Commission ordered that:

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[65] Ex. 100, p. 2-1.

> "1. The marginal costs for electric service by Pacific Gas and Electric Company (PG&E) as set forth in Appendix B to this order are adopted only for the limited purposes of: (1) payments to qualifying facilities (through capacity allocation factors and the capacity value); (2) evaluation of demand-side management cost-effectiveness, and (3) **price floors for discounted special contracts."** [emphasis added.] (1997 Cal. PUC LEXIS, *70.)

4. No party requested that this proceeding include the issue of determining a new marginal cost methodology for special contracts.

5. No party to this proceeding has asked for modification or rehearing of D.97-03-017 and D.90-12-128, and the Commission has not modified either decision.

6. Reviewing the methodology for setting marginal costs for evaluating special contracts was not included within the scope of this proceeding, and this ruling was not appealed.

7. A floor price for a contract, when multiplied by the customer's specific usage data, yields the floor revenues, which is the minimum amount that the utility must recover under contract.

8. The CTM equals the difference between the revenues produced by a contract and the floor revenues.

9. D.90-12-128 states that "[i]t would be unreasonable for a utility to enter into a contract that can reasonably be foreseen as not providing a preferable CTM" (Conclusion of Law 9) and if contracts generate a negative CTM, the utility's shareholders must fund that difference (Conclusion of Law 10).

10. Shareholders fund any negative CTM through a credit entry to line 8 of the TRA, which is called Shareholder Participation credits.

11. During the period under our review, PG&E administered seven special electric contracts between PG&E and Mills Hospital, Peninsula Hospital, Sequoia

Hospital, Semitropic Water Storage District, Avenal State Prison, Genentech, Inc. and Exxon.

12. The marginal costs in effect during 1999 and 2000 for PG&E are those adopted in D.97-03-017.

13. PG&E used the marginal costs in effect during 1999 and 2000 to calculate the floor revenues and determine the CTM for its special electric and rate design window contracts during that time frame.

14. PG&E escalated the marginal costs adopted in D.97-03-017 to 1999 and 2000 dollars by applying escalation factors supplied by an economic consultant that is often relied upon in Commission proceedings. Such an escalation is consistent with Commission practice and tightens the standards for reasonableness that the contracts must meet.

15. With the exception of Sequoia Hospital in 1999 and Peninsula Hospital in 1999 and 2000, all of PG&E's special electric and rate design window contracts generated positive CTM. During 1999, contract revenues for Sequoia were $10,666 below the floor revenues required for that contract and contract revenues for Peninsula were $11,986 below the floor revenues for that contract. In 2000, the contract revenues from Peninsula were $10,513 below the floor revenues required for that contract.

16. PG&E's CTM calculations for its contracts are reasonable.

17. It is therefore reasonable that PG&E shareholders provide a credit of $33,166 to ratepayers.

18. The total discounts provided to PG&E customers under all special electric and rate design window contracts during 1999 and 2000 – the difference between what these customers paid and what they would have paid if they were charged the frozen, full tariffed rate – was approximately $1.7 million.

19. FERC has found the PX prices during the period of this review to be unreasonable.

20. The price prevailing in PX markets is not the marginal cost of electricity.

21. ORA's proposal to require PG&E to recalculate the floor revenues and CTM for the 1999 and 2000 CTM of its special electric and rate design window contracts substituting the average annual PX price for the adopted energy and generation capacity marginal costs is inconsistent with Commission decisions setting marginal cost and determining the methodology for calculating floor revenues and CTM.

22. There is no legal basis for using unreasonable PX prices to determine the reasonableness of special contracts.

23. It is reasonable to eliminate the one balancing and eleven memorandum accounts as described herein because they no longer serve a regulatory purpose.

24. It is reasonable to accept the 2001 and 2002 illustrative revenue requirements, subject to adjustments to reflect the outcome of pending state and federal proceedings because they use existing methodologies authorized by the Commission.

25. PG&E's sales and billing forecasts are reasonable, but, with the rate freeze in force, PG&E sales and billing forecasts have no impact on customers.

26. PG&E's allocation of revenues to different customer classes is consistent with Commission-adopted methodologies.

27. PG&E uses Commission-adopted methodologies to design its rates.

28. With a rate freeze in place, increases in any rate element are offset by decreases in other rate elements.

29. PG&E's allocation of revenues and rate design changes no customer rates.

30. PG&E's revenue allocation and rate design are reasonable because they follow Commission adopted methodologies.

31. PG&E's calculation of the PX Schedule Price and PX credit are reasonable.

32. PG&E's expenditures ($1.48 million) recorded in the EVBA for the record period are reasonable.

33. The balance of $934,700 in the E-BIDMA account as of April 30, 2001 is reasonable.

34. The balance of $92,582 in the PX BFMMA is reasonable.

35. During the record period, PG&E's balance in the TRA grew from $0 to $9,475,615,000. Power purchases totaling more than $14.6 billion were booked through this account.

36. PG&E followed Commission-approved procedures in making entries into these accounts by documentating each entry and linking its adjustments to Commission and FERC decisions.

37. PG&E's entries into the TRA during this period are reasonable.

Conclusions of Law

1. PG&E performed the floor revenue and CTM calculations associated with its special electric contracts as required by D.90-12-128 and D.97-03-017. These calculations should be adopted.

2. PG&E's CTM calculation and proposed shareholder credits are consistent with Commission decisions and should be adopted.

3. The uncontested issues discussed in Section 7 and described in the Findings of Facts are consistent with Commission-authorized procedures. The entries and adjustments described in Section 7 should be authorized and adopted.

4. ORA's proposal to alter the marginal cost methodology used to calculate CTM is inconsistent with D.90-12-128 and D.97-03-017.

5. PG&E's motion to strike ORA's testimony concerning its proposed marginal cost methodology should be denied.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company's (PG&E) Contribution to Margin (CTM) calculation and proposed shareholder credits are adopted and PG&E is authorized to make these entries into the Transition Revenue Account (TRA) account.

2. The resolutions of uncontested issues discussed in Section 7 are adopted and PG&E is authorized to make entries into the TRA and Transition Cost Balancing Account accounts as requested.

3. PG&E is authorized to eliminate the one balancing and eleven memorandum accounts identified herein.

4. PG&E 's entries into the TRA as discussed in this decision are hereby verified.

5. PG&E's ratemaking and revenue adjustments for its illustrative 2001 and 2002 unbundled revenue requirements and unbundled rate components are approved.

6. PG&E's sales and billing forecasts are approved as reasonable.

7. PG&E's revenue allocation and rate design are approved as reasonable.

8. PG&E's schedule PX Calculations and PX credit are approved as reasonable.

9. PG&E is authorized to transfer the $1.48 million in the Electric Vehicle Balancing Account as of April 30, 2001 to the TRA for recovery.

10. PG&E is authorized to transfer the $934,700 in the E-BID Memorandum Account as of April 30, 2001 to the TRA for recovery.

11. PG&E is authorized to transfer the $92,582 in the Block Forward Market Memorandum Account of April 30, 2001 to the TRA for recovery.

12. PG&E's other entries into the TRA as discussed herein are authorized.

13. Within 30 days after the effective date of this order, PG&E shall file tariffs implementing the provisions authorized in this decision.

14. PG&E's motion to strike Office of Ratepayer's Advocates testimony concerning an alternate marginal cost methodology is denied.

15. Application 01-06-003 is closed.

This order is effective today.

Dated __________________, at San Francisco, California.